

## Gauri Parbati Nirman Sewa Private Limited

### Ratings

Facilities	Amount (Rs. Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	124.73	<b>CARE-NP BB [Double B]</b>	Assigned
Short Term Bank Facilities	114.00	<b>CARE-NP A4 [A Four]</b>	Assigned
Long Term/Short Term Bank Facilities	4,511.27	<b>CARE-NP BB/ A4 [Double B/ A Four]</b>	Assigned
<b>Total Facilities</b>	<b>4,750.00 (Four Billion Seven Hundred Fifty Million)</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB' to the long term bank facilities and 'CARE-NP A4' to the short term bank facilities of Gauri Parbati Nirman Sewa Private Limited (GPNS).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GPNS are constrained by fluctuating scale of operations, high working capital intensive nature of business, its presence in highly competitive construction industry coupled with tender based nature of operations. The ratings are also constrained by exposure to volatile interest rates, impact of covid-19 on its operations and risk of delay in project execution.

The ratings, however, derive strength from experienced promoters and established track record of operations, moderate order book position, moderate profitability margins and capital structure, ownership of sizable equipment & machineries, moderate counter party risk and escalation clause in majority of the contracts.

*Going forward, the ability of the company to profitably scale up its operations amidst high level of competition and maintaining its capital structure while managing its working capital requirements to support growth will be crucial and act as the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### **Operations impacted due to pandemic leading to decline in operating income during FY20**

Total revenue of GPNS declined by ~17% to Rs. 1,155 Mn in FY20 over FY19 mainly on account of lower execution of the contracts in hand due to impact of COVID-19. Furthermore, the total operating income (TOI) also almost remained stable in FY18 & FY19. In current financial year, the company has already booked revenue of Rs. 784 Mn. as on mid-June 2021.

With increased outbreak of the disease in Nepal, different local Government bodies had re-imposed lockdown for around 2 months in FY21. GPNS operations were impacted for the month of May and June 2021 with the decrease in work efficiency at the project site however company was able to increase its efficiency from early July 2021 onwards.

#### **Highly working capital intensive nature of business**

The company has working capital intensive nature of operations. GPNS primarily works with government departments and payments for contracts are received in a timely manner within 1-2 months generally. GPNS maintained construction

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com)

materials as an inventory for around 1 month. Retention money hold by the employer increased by 9% at the end of FY20. These factors lead to reliance of the company on bank finance to meet its working capital requirements. Also, during the period of FY21, there has been delay in realization of debtors mainly due to recurring lockdown and delay in budget realization from government parties which has resulted in higher utilization of working capital loan and accordingly stood high at ~90% of its drawing power for the 12 months ended June, 2021.

#### ***Tender based nature of operations in highly competitive construction industry***

The company mainly caters to orders received from various Government entities and other Government establishments either directly or on sub-contract basis. The high concentration on government contracts also makes the company susceptible to any changes pertaining to government policy in regard to awarding tenders to contractors.

The tender-based business is characterized by intense competition and the growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder. Furthermore, the business also remains dependent on stability in government policies and fiscal position of the government.

#### ***Risk of delay in project execution***

GPNS's business is susceptible to the financial loss arising out of delay in project execution, as generally, there is a penalty clause for delay in contract execution. However, GPNS has relied on the experience of its management team with strong project execution skills which has enabled the company to build satisfactory standing in the industry as indicated by the repeat orders awarded by its clients.

#### **Key Rating Strengths**

##### ***Experienced promoters and established track record of operations***

GPNS was promoted by Mr. Ram Kumar Thapa and his family members and has established track record of operations of over 2 decades in construction of road, building, bridges repair & maintenance, bridges construction, overhead tank, irrigation, electricity works etc. Mr. Bishal Thapa, Managing Director, has over 5 years of experience in construction field and looks after the overall operations of the company. By virtue of long experience of the promoters; the company has been able to attract experienced professionals from the industry, who adequately support the directors.

##### ***Moderate order book position with mid-term revenue visibility and diversified projects***

The unexecuted order book of the company as on June end 2021 stood at Rs. 3,105 Mn which is approximately 2.69 times of its total operating income for FY20, thereby giving short to medium term revenue visibility. The tenure of the orders undertaken by the company is up to 36 months. The order book is diversified over various projects such as building works, irrigation and water works (river training works, canal works, embankment construction etc.), bridge works, and road works received from various government authorities.

##### ***Ownership of sizeable equipment and machineries***

GPNS has built up adequate asset base to meet the working requirements of its projects with total fixed asset of Rs. 364 Mn at the end of FY20. The investment in equipment/machineries of the company has increased by Rs. 168 Mn in FY18, by Rs. 104 Mn in FY19 and by Rs. 15 Mn. in FY20. Efficient deployment of the resources and investment in machinery during the past years has helped in timely execution of projects and to further acquire new projects.

##### ***Average Financial risk profile***

The profitability margin of the company stood moderate as reflected from PBIDLT and PAT margins of 10.24% and 3.36% respectively in FY20. The profitability margin has shown improvement in FY20 over previous year on account of

execution of better margins contracts. The capital structure of the company stood moderate marked by overall gearing ratio (including mobilization advance) at around 2.08x and 2.19x at the end of FY19 and FY20 respectively. Interest coverage ratio also stood moderate at around 2.96 times in FY20 with total debt to GCA of 8.15x for FY20.

#### Analytical approach:

CRNL has analyzed GPNS's credit profile by considering the consolidated financial statements.

#### About the Company

Gauri Parbati Nirman Sewa Private Limited (GPNS), incorporated in July 1988, is a Class-A construction company of Nepal with registered office based in Kathmandu, Nepal. Even though the company was registered in 1988, the business of the company started growing from 2017 onwards. In addition to doing projects independently, GPNS also enters into Joint Ventures (JVs) with other companies in order to meet the eligibility criteria for different construction projects.

#### Financial Performance – Consolidated

For the Period Ended / as at Mid-July,	(Rs. Million)		
	2018 (12m, A)	2019 (12m, A)	2020 (12m, A)
Income from Operations	1,332	1,395	1,155
PBILDT Margin (%)	8.49	7.97	10.24
Overall Gearing (times)	2.12	2.08	2.19
Total Outstanding Liabilities/Tangible Net worth (times)	3.66	3.77	4.41
Interest Coverage (times)	4.27	2.99	2.96
Current Ratio (times)	2.02	1.47	1.37
Total Debt/ Gross Cash Accruals (times)	6.66	8.55	8.15

A: Audited, FY ended mid-July

#### Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loans	124.73	CARE-NP BB
Short Term Bank Facilities	Working Capital Loans	114.00	CARE-NP A4
Long Term/ Short Term Bank Facilities	Non-Funded Loans	4,511.27	CARE-NP BB/ A4
<b>Total</b>		<b>4,750.00</b>	

## Contact Us

### Analyst

Mr. Nibesh Manandhar  
+977-01-4012629  
nibesh.manandhar@careratingsnepal.com

### Senior Analyst

Ms. Shalini Sanghai  
+977-01-4012629  
shalini.sanghai@careratingsnepal.com

### Relationship Contact

Achin Nirwani  
+977-9818832909  
achin.nirwani@careratingsnepal.com

### About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

### Disclaimer

*CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.*